

VILLAGE OF FREEPORT

FINANCIAL STATEMENTS

For the year ended February 29, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <u>VILLAGE OF FREEPORT</u>	County <u>BAREY</u>
Audit Date <u>FEBRUARY 29, 2004</u>	Opinion Date <u>JUNE 3, 2004</u>	Date Accountant Report Submitted to State: <u>AUGUST 18, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<u>X</u>		
Reports on individual federal financial assistance programs (program audits).			<u>X</u>
Single Audit Reports (ASLGU).			<u>X</u>

Certified Public Accountant (Firm Name) <u>WALKER, FLUKE & SHULDEN, P.C.</u>			
Street Address <u>525 W APPLE ST</u>	City <u>HASTINGS</u>	State <u>MI</u>	ZIP <u>49058</u>
Accountant Signature <u>Katherine K. Shelden, CPA Walker, Fluke & Shelden, P.C.</u>			

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Freeport
Barry County, Michigan

We have audited the accompanying general purpose financial statements of the Village of Freeport, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of Village of Freeport, Michigan's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Freeport, Michigan, as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents as supplemental data are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Village of Freeport, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Hastings, Michigan
June 3, 2004

Walker, Fluke & Sheldon, PLLC

VILLAGE OF FREEPORT
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
February 29, 2004

ASSETS	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS			TOTAL (MEMORANDUM ONLY)
	General	Special Revenue			General Fixed Assets	General Long-Term Debt	Primary Government	
Cash and Cash Equivalents	\$ 45,954	\$ 45,292	\$ 99,533	\$ 7,413	\$ -	-	\$ 198,192	
Investments	7,382	-	12,526	-	-	-	19,908	
Receivables								
Taxes - Delinquent	8,058	-	-	-	-	-	8,058	
Other	-	-	5,625	-	-	-	5,625	
Due From State	11,889	9,429	-	-	-	-	21,318	
Due From Other Funds	10,125	8,818	5,101	2,052	-	-	26,096	
Fixed Assets (Net, Where Applicable, of Accumulated Depreciation)	-	-	152,406	-	241,277	-	393,683	
Amount to be Provided for Retirement of General Long- Term Debt	-	-	-	-	-	45,941	45,941	
Total Assets	\$ 83,408	\$ 63,539	\$ 275,191	\$ 9,465	\$ 241,277	\$ 45,941	\$ 718,821	

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
February 29, 2004

LIABILITIES AND FUND EQUITY	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS			TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government	
Liabilities								
Accounts Payable	\$ 2,500	\$ -	\$ 17,852	\$ -	\$ -	\$ -	\$ 20,352	
Accrued Liabilities	-	-	-	2,672	-	-	2,672	
Due to Other Funds	18,459	448	396	6,793	-	-	26,096	
Deferred Revenue								
Taxes and Assessments	8,058	-	-	-	-	-	8,058	
Bonds Payable	-	-	34,000	-	-	-	34,000	
Notes Payable	-	-	100,000	-	-	-	100,000	
Lease Payable	-	-	-	-	-	45,941	45,941	
Total Liabilities	29,017	448	152,248	9,465	-	45,941	237,119	
Fund Equity								
Investment in Fixed Assets	-	-	-	-	241,277	-	241,277	
Contributed Capital	-	-	3,797	-	-	-	3,797	
Retained Earnings								
Unreserved	-	-	106,620	-	-	-	106,620	
Reserved	-	-	12,526	-	-	-	12,526	
Fund Balances								
Unreserved - Undesignated	54,391	63,091	-	-	-	-	117,482	
Total Fund Equity	54,391	63,091	122,943	-	241,277	-	481,702	
Total Liabilities and Fund Equity	\$ 83,408	\$ 63,539	\$ 275,191	\$ 9,465	\$ 241,277	\$ 45,941	\$ 718,821	

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended February 29, 2004

	GOVERNMENTAL FUND TYPES		TOTAL (MEMORANDUM ONLY)
	General	Special Revenue	Primary Government
Revenues			
Taxes and Penalties	\$ 56,918	\$ -	\$ 56,918
Licenses and Permits	475	-	475
State Grants	42,177	50,646	92,823
Charges for Services	5,184	-	5,184
Fines and Forfeits	56	-	56
Interest and Rentals	23,188	465	23,653
Other Revenue	6,163	-	6,163
Total Revenues	134,161	51,111	185,272
Expenditures			
Current			
Legislative	4,198	-	4,198
General Government	50,063	-	50,063
Public Safety	39,521	-	39,521
Public Works	7,437	54,890	62,327
Recreation and Cultural	6,558	-	6,558
Other	11,216	-	11,216
Capital Outlay	2,130	-	2,130
Debt Service	13,398	-	13,398
Total Expenditures	134,521	54,890	189,411
Excess of Revenues Over (Under) Expenditures	(360)	(3,779)	(4,139)
Fund Balance--March 1, 2003	54,751	66,870	121,621
Fund Balance--February 29, 2004	\$ 54,391	\$ 63,091	\$ 117,482

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND AND SPECIAL REVENUE FUNDS - PRIMARY GOVERNMENT
For the Year Ended February 29, 2004

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (MEMORANDUM ONLY)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues									
Taxes and Penalties	\$ -	\$ 56,918	\$ 56,918	\$ -	\$ -	\$ -	\$ -	\$ 56,918	\$ 56,918
Licenses and Permits	-	475	475	-	-	-	-	475	475
State Grants	-	42,177	42,177	-	50,646	50,646	-	92,823	92,823
Charges for Services	-	5,184	5,184	-	-	-	-	5,184	5,184
Fines and Forfeits	-	56	56	-	-	-	-	56	56
Interest and Rentals	-	23,188	23,188	-	465	465	-	23,653	23,653
Other Revenues	-	6,163	6,163	-	-	-	-	6,163	6,163
Total Revenues	-	<u>134,161</u>	<u>\$ 134,161</u>	\$ -	<u>51,111</u>	<u>\$ 51,111</u>	\$ -	<u>185,272</u>	<u>\$ 185,272</u>
Expenditures									
Current									
Legislative	5,700	4,198	1,502	-	-	-	5,700	4,198	1,502
General Government	56,968	50,063	6,905	-	-	-	56,968	50,063	6,905
Public Safety	39,150	39,521	(371)	-	-	-	39,150	39,521	(371)
Public Works	13,900	7,437	6,463	57,500	54,890	2,610	71,400	62,327	9,073
Recreation and Cultural	8,350	6,558	1,792	-	-	-	8,350	6,558	1,792
Other	19,500	11,216	8,284	-	-	-	19,500	11,216	8,284
Capital Outlay	2,130	2,130	-	-	-	-	2,130	2,130	-
Debt Service	14,500	13,398	1,102	-	-	-	14,500	13,398	1,102
Total Expenditures	<u>160,198</u>	<u>134,521</u>	<u>25,677</u>	<u>57,500</u>	<u>54,890</u>	<u>2,610</u>	<u>217,698</u>	<u>189,411</u>	<u>28,287</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND AND SPECIAL REVENUE FUNDS - PRIMARY GOVERNMENT (Cont'd)
 For the Year Ended February 29, 2004

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (MEMORANDUM ONLY)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Excess of Revenues Over (Under) Expenditures	(160,198)	(360)	159,838	(57,500)	(3,779)	53,721	(217,698)	(4,139)	213,559
Fund Balance—March 1, 2003	54,751	54,751	-	66,870	66,870	-	121,621	121,621	-
Fund Balance—February 29, 2004	<u>\$(105,447)</u>	<u>\$ 54,391</u>	<u>\$159,838</u>	<u>\$ 9,370</u>	<u>\$ 63,091</u>	<u>\$ 53,721</u>	<u>\$ (96,077)</u>	<u>\$117,482</u>	<u>\$213,559</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
For the Year Ended February 29, 2004

Operating Revenues	
Charges for Services	\$ 65,080
Other Operating Revenue	<u>5,632</u>
Total Operating Revenues	<u>70,712</u>
Operating Expenses	
Salaries	11,841
Fringes	1,295
Equipment Rental	3,532
Transportation	155
Operating Supplies	6,843
Office Supplies	23
Insurance	2,829
Contractual Services	177
Printing and Publishing	224
Memberships, Dues and Training	662
Maintenance and Repairs	679
Uniforms	602
Utilities	3,047
Water Testing	1,578
Miscellaneous	780
Depreciation	<u>5,378</u>
Total Operating Expenses	<u>39,645</u>
Operating Income (Loss)	<u>31,067</u>
Nonoperating Revenues (Expenses)	
Interest Earned on Cash Equivalents and Investments	1,134
Interest Expense	<u>(2,853)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,719)</u>
Net Income	29,348
Retained Earnings--March 1, 2003	<u>89,798</u>
Retained Earnings--February 29, 2004	<u>\$ 119,146</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
For the Year Ended February 29, 2004

Cash Flows From Operating Activities:	
Cash Charges for Services	\$ 63,806
Other Operating Revenue	5,632
Cash Payments to Employees for Services	(13,136)
Cash Payments to Suppliers for Goods and Services	<u>(38,193)</u>
Net Cash Used by Operating Activities	<u>18,109</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and Construction of Fixed Assets	(6,608)
Installment Borrowings	100,000
Payment of Principal	(50,000)
Payment of Interest	<u>(3,877)</u>
Net Cash Used by Capital and Related Financing Activities	<u>39,515</u>
Cash Flows From Investing Activities:	
Interest on Cash Equivalents and Investments	1,134
Purchase of Investments	<u>(288)</u>
Net Cash Provided by Investing Activities	<u>846</u>
Net Decrease in Cash and Cash Equivalents	58,470
Cash and Cash Equivalents at Beginning of the Year	<u>41,063</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 99,533</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 31,067
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	5,378
Decrease (Increase) in Accounts Receivable	(1,274)
Decrease (Increase) in Due From Other Funds	(5,101)
Increase (Decrease) in Accounts Payable	(5,242)
Increase (Decrease) in Due To Other Funds	<u>(6,719)</u>
Net Cash Used by Operating Activities	<u>\$ 18,109</u>

Supplemental Disclosure:

Construction in progress expenditures pertaining to the water supply system improvement totaling \$48,766 were incurred but paid directly from the Barry County Note, and thus excluded from the statement of cash flows.

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF VILLAGE OPERATIONS

The Village of Freeport was organized in 1895. The Village operates under an elected council of six members and provides services to its residents in many areas including police protection and highway and street maintenance. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance service is provided by outside independently owned entities. The Village is assessed for its respective share of the expenditures.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Village of Freeport and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

BASIS OF PRESENTATION

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village of Freeport are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general Village of Freeport governmental departments, boards and commissions; (2) law enforcement; and (3) health, welfare and medical assistance. The fund includes the general operating expenditures of the local unit.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

PROPRIETARY FUNDS

Enterprise Funds

These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIDUCIARY FUNDS

Trust and Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include: (a) Expendable Trust Funds; (b) Nonexpendable Trust Funds; (c) Pension Trust Funds; and (d) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group

This Account Group presents the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets).

Fixed assets used in the general operation of the Village of Freeport are recorded as expenditures when purchased and are accounted for in the General Fixed Assets Account Group. No depreciation is recorded for these general fixed assets. Infrastructure assets, including roads, bridges, sanitary sewers, drains, curbs, and gutters are not capitalized.

General Long-Term Debt Account Group

This Account Group presents the balance of general obligation long-term debt, which is not recorded in proprietary or trust funds.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Village of Freeport conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds

The Governmental Fund Types (General and Special Revenue) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. An exception to this general rule is principal and interest on long-term debt, which is recognized when due.

Proprietary Funds

The Proprietary Fund Types (Enterprise) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Village applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Funds

The Fiduciary Funds are maintained on a cash basis, which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

Other Financing Sources (Uses)

The transfers of cash between the various Village funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

CASH, CASH EQUIVALENTS AND INVESTMENTS

For the purpose of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments are recorded at cost, which approximates market value, and are categorized as non-risk investments.

RECEIVABLES - TAXES

The Village's property taxes are levied and become a lien on each July 1 based on the taxable valuation of property located in the Village as of the preceding December 31st. These taxes are due on August 31 with the final collection date of September 15 before they are added to the county delinquent tax rolls.

The 2003 Taxable Value of the Village totaled \$7,561,030, on which ad valorem taxes levied consisted of 8.088 mills for Village operating purposes, raising \$59,898. The amounts recognized in the General Fund financial statements as property tax revenue represent 2003 taxes collected and 2002 delinquent taxes collected in the current fiscal year.

The delinquent real property taxes of the Village of Freeport are purchased by Barry County. The County intends to sell tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as deferred revenue for the current year since they are not available to fund expenditures of the current period.

PROPERTY AND EQUIPMENT

Property and equipment used in governmental fund type operations is accounted for in the General Fixed Asset Account Group, rather than in governmental funds. No depreciation has been provided on such property and equipment. All property and equipment is valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property and equipment is valued at its estimated fair market value on the date donated.

Property and equipment used in proprietary fund type operations (Water System) are capitalized and shown on their respective balance sheets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line method. The service lives by type of asset are as follows:

Buildings and Improvements	15-35 years
Distribution System	30-50 years
Equipment	7-15 years

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RETAINED EARNINGS RESERVE

In the Water System fund, certain amounts of the retained earnings are reserved for bond and interest redemption. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

BUDGETS, BUDGETARY ACCOUNTING AND BUDGET BASIS OF ACCOUNTING

Budgets are adopted for all governmental fund types, as required by law. Budgets are adopted at the activity level. The combined statement of revenues, expenditures, and changes in the fund balance - all governmental funds presents comparisons at the functional level. The Village uses the same basis of accounting for budgeting purposes as for financial statement presentation. The budget figures used are not the original amounts adopted at the beginning of the year. The budget has been amended by the Village Board at regularly scheduled meetings in accordance with the requirements of P.A. 621 of 1978.

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Freeport.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOTAL COLUMN ON COMBINED STATEMENTS-OVERVIEW

The total column on the Combined Statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

COMBINING FINANCIAL STATEMENTS

Combining financial statements are not presented for the general fund and proprietary fund because they are the only funds of their type.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (Continued)

During the year ended February 29, 2004, the Village incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>TOTAL APPROPRIATIONS</u>	<u>AMOUNT OF EXPENDITURES</u>	<u>BUDGET VARIANCE</u>
General Fund			
General Government:			
Buildings and Grounds	\$ 13,500	\$ 17,683	\$ 4,183
Community Center	\$ 12,600	\$ 14,239	\$ 1,639
Public Safety:			
Planning and Zoning	\$ 5,850	\$ 6,831	\$ 981

BALANCE SHEET-CASH AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated investment grade; and mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of Village of Freeport funds. The water system money must be invested at the Hastings City Bank, Hastings, Michigan, which is a member of the Federal Deposit Insurance Corporation.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Village cash deposits are as follows:

<u>DEPOSIT</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 218,100	\$ 212,581
Uninsured	-	4,345
Total Deposits	\$ <u>218,100</u>	\$ <u>216,926</u>
Cash and Cash Equivalents	\$ 198,192	\$ 197,018
Investments in Certificates of Deposit with a Maturity Greater Than Three Months	<u>19,908</u>	<u>19,908</u>
Total Deposits	\$ <u>218,100</u>	\$ <u>216,926</u>

At February 29, 2004, \$12,526 of investments in certificates of deposit in the Enterprise Fund was restricted for bond and interest redemption as described in the previous retained earnings reserve footnote. Restricted investments are held in a certificate bearing interest at 2.24%.

VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004

ENTERPRISE FUNDS

The Village maintains a water system for its residents. Selected summary information for the water fund is as follows:

Operating Revenues	\$ 70,712	Property and Equipment Additions	\$ 1,917
Depreciation	\$ 5,378	Net Working Capital	\$ 92,011
Operating Income	\$ 31,067	Total Assets	\$ 275,191
Operating Transfers In	\$ -	Bonds and Notes Payable	\$ 134,000
Net Income (Loss)	\$ 29,348	Total Equity	\$ 122,943

FIXED ASSETS

A summary of the changes in the general fixed asset group of accounts is as follows:

	<u>BALANCE</u> <u>2/28/03</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ADJUSTMENTS</u>	<u>BALANCE</u> <u>2/29/04</u>
Buildings	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
Building Improvements	25,765	980	-	-	26,745
Equipment	155,226	1,150	-	979	157,355
Park Improvements	<u>7,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,177</u>
Total	<u>\$ 238,168</u>	<u>\$ 2,130</u>	<u>\$ -</u>	<u>\$ 979</u>	<u>\$ 241,277</u>

The adjustments above reflect corrections made during the current year to adjust the carrying balances to the Village's actual physical asset listing.

A summary of proprietary fund type property, plant, and equipment at February 29, 2004 is as follows:

	<u>WATER</u> <u>SYSTEM</u>	<u>DEPRECIABLE</u> <u>LIFE-YEARS</u>
Buildings and Improvements	\$ 15,727	15 - 35 yrs.
Distribution System	128,596	30 - 50 yrs.
Equipment	30,083	7 - 15 yrs.
Construction in Progress	<u>79,698</u>	
Total Cost	254,104	
Less: Accumulated Depreciation	<u>101,698</u>	
Net Carrying Amount	<u>\$ 152,406</u>	

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

INTERFUND RECEIVABLES AND PAYABLES

The amounts of the inter-fund receivables and payables are as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
General	\$ 10,125	General	\$ 18,459
Major	8,130	Major	435
Local	688	Local	13
Water	5,101	Water	396
Trust and Agency	<u>2,052</u>	Trust and Agency	<u>6,793</u>
	<u>\$ 26,096</u>		<u>\$ 26,096</u>

LONG-TERM DEBT

The following is a summary of the debt outstanding of the Village of Freeport as of February 29, 2004:

	<u>INTEREST</u>	<u>MATURITY</u>	<u>AMOUNT</u>
General Long-Term Debt			
Lease Payable	4.75%	2008	\$ 45,941
Water System			
Revenue Bonds	5.00%	2012	\$ 34,000
Notes Payable	2.14%	2006	\$ 100,000

The following is a summary of changes in general long - term debt and other debt obligation transactions of the Village of Freeport for the year ended February 29, 2004:

	<u>ENTERPRISE FUNDS</u>		<u>GENERAL LONG-TERM DEBT</u>
	<u>Revenue Bonds</u>	<u>Notes</u>	<u>Lease Payable</u>
Long-Term Debt Payable - March 1, 2003	\$ 37,000	\$ 47,000	\$ 56,874
Additions	-	100,000	-
Retirements	<u>3,000</u>	<u>47,000</u>	<u>10,933</u>
Long-Term Debt Payable - February 29, 2004	<u>\$ 34,000</u>	<u>\$ 100,000</u>	<u>\$ 45,941</u>

Total interest expense for the Village for the year was \$5,318.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

LONG-TERM DEBT (Continued)

The annual principal and interest requirements for these debts are outlined as follows:

WATER SUPPLY SYSTEM REVENUE BONDS - 1972 ISSUE			
<u>FISCAL YEAR ENDED</u>	<u>BOND PRINCIPAL</u>	<u>INTEREST 5.00%</u>	<u>ANNUAL REQUIREMENT</u>
2005	\$ 3,000	\$ 1,700	\$ 4,700
2006	4,000	1,550	5,550
2007	4,000	1,350	5,350
2008	4,000	1,150	5,150
2009	4,000	950	4,950
2010	5,000	750	5,750
2011	5,000	500	5,500
2012	<u>5,000</u>	<u>250</u>	<u>5,250</u>
	<u>\$ 34,000</u>	<u>\$ 8,200</u>	<u>\$ 42,200</u>

NOTE: Bonds are Revenue Bonds, which mature serially on January 1 of each year. Interest is payable January 1 and July 1 each year. Original amount of issue - \$85,000.

WATER SUPPLY SYSTEM BOND ANTICIPATION NOTE - SERIES 2004			
<u>FISCAL YEAR ENDED</u>	<u>BOND PRINCIPAL</u>	<u>INTEREST 2.14%</u>	<u>ANNUAL REQUIREMENT</u>
2005	\$ -	\$ 1,629	\$ 1,629
2006	<u>100,000</u>	<u>2,140</u>	<u>102,140</u>
	<u>\$ 100,000</u>	<u>\$ 3,769</u>	<u>\$ 103,769</u>

NOTE: Bond Anticipation Note payable to Hastings City Bank. The Note matures on December 1, 2006. Interest is payable June 1 and December 1 each year.

LOADER -TRACTOR-BACKHOE LEASE PAYABLE			
<u>FISCAL YEAR ENDED</u>	<u>LEASE PRINCIPAL</u>	<u>INTEREST 4.75%</u>	<u>ANNUAL REQUIREMENT</u>
2005	\$ 12,444	\$ 2,071	\$ 14,515
2006	12,068	1,331	13,399
2007	12,654	745	13,399
2008	<u>8,775</u>	<u>157</u>	<u>8,932</u>
	<u>\$ 45,941</u>	<u>\$ 4,304</u>	<u>\$ 50,245</u>

NOTE: Lease payable to New Holland Credit in monthly installments of \$1,117, including interest. The note matures on October 28, 2007 and is secured by a New Holland Tractor-Loader-Backhoe.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 29, 2004**

LONG-TERM DEBT (Continued)

The annual principle and interest payments due on all outstanding debt until maturity are as follows:

3/1/04 - 2/28/05	\$ 20,844
3/1/05 - 2/28/06	121,089
3/1/06 - 2/28/07	18,749
3/1/07 - 2/29/08	14,082
3/1/08 - 2/28/09	4,950
After five years	<u>16,500</u>
Total	\$ <u>196,214</u>

VACATION AND SICK LEAVE POLICIES

Vacation pay is earned by all employees with at least twenty regularly scheduled hours each week. The amount of vacation pay earned is determined according to the length of their employment and is available for use in the year following its accrual. Vacation time is paid at the employee's current pay rate and must be used in the year available. The Village has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year.

Sick leave benefits are earned by all employees except elected officials with at least one month of service. The amount of sick leave benefits earned is six days per calendar year. Sick time is paid at the employees current pay rate and must be used in the year available. Sick leave benefits will not be paid upon termination of employment. No provision has been made in the financial statements for unused sick leave.

RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village manages its risk exposure through commercial insurance. At February 29, 2004, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

**VILLAGE OF FREEPORT
COMBINING BALANCE SHEET -
SPECIAL REVENUE FUNDS
February 29, 2004**

<u>ASSETS</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 17,922	\$ 27,370	\$ 45,292
Due From State	7,301	2,128	9,429
Due From Other Funds	<u>8,130</u>	<u>688</u>	<u>8,818</u>
Total Assets	<u>\$ 33,353</u>	<u>\$ 30,186</u>	<u>\$ 63,539</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Due To Other Funds	\$ <u>435</u>	\$ <u>13</u>	\$ <u>448</u>
Total Liabilities	<u>435</u>	<u>13</u>	<u>448</u>
Fund Equity			
Fund Balance			
Unreserved - Undesignated	<u>32,918</u>	<u>30,173</u>	<u>63,091</u>
Total Fund Equity	<u>32,918</u>	<u>30,173</u>	<u>63,091</u>
Total Liabilities and Fund Equity	<u>\$ 33,353</u>	<u>\$ 30,186</u>	<u>\$ 63,539</u>

VILLAGE OF FREEPORT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS
For the Year Ended February 29, 2004

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Revenues			
State Grants	\$ 39,194	\$ 11,452	\$ 50,646
Interest and Rentals	<u>180</u>	<u>285</u>	<u>465</u>
Total Revenues	<u>39,374</u>	<u>11,737</u>	<u>51,111</u>
Expenditures			
Current			
Public Works			
Street Routine Maintenance	33,910	8,155	42,065
Street Winter Maintenance	7,702	2,646	10,348
Traffic Services	298	49	347
Insurance and Bonds	335	100	435
Miscellaneous	<u>842</u>	<u>853</u>	<u>1,695</u>
Total Expenditures	<u>43,087</u>	<u>11,803</u>	<u>54,890</u>
Excess of Revenues Over (Under)			
Expenditures	(3,713)	(66)	(3,779)
Fund Balance--March 1, 2003	<u>36,631</u>	<u>30,239</u>	<u>66,870</u>
Fund Balance--February 29, 2004	<u>\$ 32,918</u>	<u>\$ 30,173</u>	<u>\$ 63,091</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended February 29, 2004

<u>REVENUES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Taxes and Penalties:			
Property Taxes		\$ 56,074	
Collection Fees		844	
Total Taxes and Penalties	\$ -	56,918	\$ 56,918
Licenses and Permits	-	475	475
State Grants:			
State Revenue Sharing:			
Sales Tax		41,551	
Liquor License Refund		626	
Total State Grants	-	42,177	42,177
Charges for Services:			
Cemetery Foundations		180	
Grave Openings		3,564	
Cemetery Lot Sales		1,440	
Total Charges for Services	-	5,184	5,184
Fines and Forfeits	-	56	56
Interest and Rentals:			
Interest		1,086	
Community Center Rent		2,985	
Equipment Rental		16,217	
Miscellaneous Rentals		2,900	
Total Interest and Rentals	-	23,188	23,188
Other Revenue:			
Miscellaneous		2,406	
Donations		204	
Refunds & Rebates		3,553	
Total Other Revenue	-	6,163	6,163
Total Revenues	-	134,161	134,161

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 29, 2004

<u>EXPENDITURES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Legislative:			
Salaries - Village Council		2,500	
Fringes		433	
Printing and Publishing		<u>1,265</u>	
Total Legislative	<u>5,700</u>	<u>4,198</u>	<u>1,502</u>
General Government:			
Village President:			
Salary		1,350	
Fringes		<u>103</u>	
Total Village President	<u>1,482</u>	<u>1,453</u>	<u>29</u>
Elections:			
Printing and Publishing		<u>153</u>	
Total Elections	<u>1,000</u>	<u>153</u>	<u>847</u>
Accounting Department:			
Contractual Services		<u>1,192</u>	
Total Accounting Department	<u>2,600</u>	<u>1,192</u>	<u>1,408</u>
Attorney	<u>7,700</u>	<u>435</u>	<u>7,265</u>
Village Clerk:			
Salary		4,140	
Fringes		317	
Supplies		1,310	
Transportation		29	
Utilities		595	
Miscellaneous		<u>24</u>	
Total Village Clerk	<u>7,500</u>	<u>6,415</u>	<u>1,085</u>
Board of Review	<u>926</u>	<u>-</u>	<u>926</u>
Treasurer:			
Salary		4,000	
Fringes		306	
Supplies		<u>610</u>	
Total Treasurer	<u>5,540</u>	<u>4,916</u>	<u>624</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 29, 2004

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
General Government (Continued)			
Building and Grounds:			
Salaries		7,737	
Fringes		749	
Supplies		1,182	
Uniforms		544	
Contracted Services		881	
Utilities		3,781	
Maintenance and Repairs		1,720	
Miscellaneous		109	
Capital Outlay		980	
Total Buildings and Grounds	<u>13,500</u>	<u>17,683</u>	<u>(4,183)</u>
Community Center:			
Salaries		4,290	
Fringes		446	
Supplies		330	
Utilities		7,916	
Maintenance and Repairs		1,007	
Miscellaneous		250	
Total Community Center	<u>12,600</u>	<u>14,239</u>	<u>(1,639)</u>
Cemetery:			
Salaries		3,501	
Fringes		385	
Supplies		71	
Gas and Oil		246	
Contractual - Grave Openings		80	
Maintenance and Repairs		274	
Total Cemetery	<u>5,100</u>	<u>4,557</u>	<u>543</u>
Total General Government	<u>57,948</u>	<u>51,043</u>	<u>6,905</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 29, 2004

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Public Safety:			
Police:			
Salaries		19,618	
Fringes		2,444	
Supplies		63	
Gas and Oil		481	
Printing and Publishing		2,720	
Memberships, Dues and Training		30	
Utilities		819	
Maintenance and Repairs		941	
Miscellaneous		74	
Total Police	<u>27,800</u>	<u>27,190</u>	<u>610</u>
Fire:			
Hydrant Rental		5,500	
Total Fire	<u>5,500</u>	<u>5,500</u>	<u>-</u>
Planning and Zoning:			
Salaries		375	
Fringes		46	
Contractual Services		6,215	
Printing and Publishing		150	
Memberships, Dues and Training		45	
Total Planning and Zoning	<u>5,850</u>	<u>6,831</u>	<u>(981)</u>
Total Public Safety	<u>39,150</u>	<u>39,521</u>	<u>(371)</u>
Public Works:			
Street Lighting:			
Utilities		7,437	
Total Street Lighting	<u>7,900</u>	<u>7,437</u>	<u>463</u>
Streets and Highways:			
Contractual Services		-	
Total Streets and Highways	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total Public Works	<u>13,900</u>	<u>7,437</u>	<u>6,463</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 29, 2004

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Recreation and Cultural:			
Parks:			
Salaries		3,459	
Fringes		347	
Supplies		168	
Gas and Oil		233	
Utilities		663	
Maintenance and Repairs		1,671	
Miscellaneous		17	
Capital Outlay		1,150	
Total Parks	<u>9,500</u>	<u>7,708</u>	<u>1,792</u>
Total Recreation and Cultural	<u>9,500</u>	<u>7,708</u>	<u>1,792</u>
Other:			
Insurance and Bonds:			
Employee Insurances		171	
Insurance and Bonds		11,045	
Total Insurance and Bonds	<u>19,500</u>	<u>11,216</u>	<u>8,284</u>
Total Other	<u>19,500</u>	<u>11,216</u>	<u>8,284</u>
Debt Service:			
Principal		10,933	
Interest		2,465	
Total Debt Service	<u>14,500</u>	<u>13,398</u>	<u>1,102</u>
Total Expenditures	<u>160,198</u>	<u>134,521</u>	<u>25,677</u>
Excess of Revenues			
Over (Under) Expenditures	(160,198)	(360)	159,838
Fund Balance--March 1, 2003	<u>54,751</u>	<u>54,751</u>	<u>-</u>
Fund Balance--February 29, 2004	<u>\$ (105,447)</u>	<u>\$ 54,391</u>	<u>\$ 159,838</u>

VILLAGE OF FREEPORT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL TRUST AND AGENCY FUNDS
For the Year Ended February 29, 2004

	Balance 2/28/03	Receipts	Disbursements	Balance 2/29/04
PAYROLL FUND				
Assets:				
Cash	\$ 6,378	\$ 99,727	\$ 98,692	\$ 7,413
Due From Other Funds	<u>409</u>	<u>1,643</u>	<u>-</u>	<u>2,052</u>
Total Assets	<u>\$ 6,787</u>	<u>\$ 101,370</u>	<u>\$ 98,692</u>	<u>\$ 9,465</u>
Liabilities:				
Due to Other Funds	\$ 3,469	\$ 4,120	\$ 796	\$ 6,793
Due to Federal Government	1,679	21,655	21,901	1,433
Due to State of Michigan	1,639	5,075	5,475	1,239
Due to Employees	<u>-</u>	<u>70,520</u>	<u>70,520</u>	<u>-</u>
Total Liabilities	<u>\$ 6,787</u>	<u>\$ 101,370</u>	<u>\$ 98,692</u>	<u>\$ 9,465</u>



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June 3, 2004

To the Village Council
Village of Freeport
Barry County, Michigan

We have recently completed an audit of the financial statements of the Village of Freeport, Barry County, Michigan for the year ended February 29, 2004. During the course of the examination, the following items came to our attention, which require further comment.

Budgets should be Adopted for Revenue Accounts

During the course of the audit, it was noted that the Village is not budgeting for the various revenue accounts. This is a repeat comment from prior years.

P.A. 621, 1978 requires governmental units to prepare annual budgets containing an itemized statement for its proposed expenditures and estimated revenues, covering all its departments and activities. The budget for revenue of the Village should be a detailed estimate of all anticipated income of the Village from major sources per the Uniform Chart of Accounts for Local Units of Government. The major revenue source classifications are taxes and penalties, licenses and permits, federal aid, state aid, intergovernmental revenue, charges for services, fines and forfeits, interest and rentals, and miscellaneous.

It is recommended that the Village prepare and approve annual budgets containing detailed revenues by major source and proposed expenditures by activity.

Budgets Should Be Reviewed On A Periodic Basis

P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. In addition, Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 29, 2004, the Village over expended in three areas. The Village monitors its budget and does amend the budget from time to time and will continue to do so.

The Village Has Not Adopted A Capital Outlay Policy nor Depreciation Policy

During the course of the audit, it was noted that the Village does not have a capital outlay policy or depreciation policy. A capital outlay policy helps the clerk determine which expenditures to capitalize as fixed assets vs. expensing as supplies or repairs and maintenance. It enables the board to identify and separately approve the purchase of fixed asset disbursements. This policy will become critical with the implementation of GASB 34, which requires more detailed accounting in the area of fixed assets. In addition, a depreciation policy sets forth the method and lives that these capital assets will be depreciated for GASB 34 purposes.

It is recommended that the Village Council adopt a capital outlay policy that sets a dollar threshold, under which items would not require specific board approval and would be booked to supplies or repairs and maintenance. Expenditures over that dollar threshold would require board approval for the exact amount (including shipping, freight, add-on's, etc) and be recorded in the capital outlay accounts. The Village also needs to adopt a depreciation policy that would specify the method and useful lives to apply to the fixed asset listing to calculate depreciation expense.

Documentation Maintained in Village Council Meeting Minutes

During the course of the audit, no documentation in the Village council minutes could be located for approval to pay several bills. This is a repeat comment from prior years.

The Uniform Accounting Procedures Manual Internal Control Requirements states that all disbursements be approved by the legislative body prior to disbursement. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges or to pay appropriated amounts and payroll, but then these payments must be reviewed in the subsequent month, and the specific amounts approved. How this review of bills is documented in the minutes is critical for support purposes. Several different approaches can be taken.

It is recommended that a paid bills list, in check number order, be circulated to each member, and that one copy be signed by all members and permanently attached to the minutes. Maintaining check number order from month to month is crucial. The first check number should be the next sequential check number after the last one on the previous month's list. Both lists could be circulated to ensure this accountability. Void checks and missing checks should be on the list and the original void checks available for inspection. If an advance approval policy is adopted, then those disbursements that were approved in the prior month, but not yet disbursed need to be identified on the paid bills list. These procedures provide the best evidence and documentation that everyone has reviewed and approved the disbursements and explained any missing/void checks.

We would like to take this opportunity to thank the Village of Freeport Clerk and Treasurer for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Watkins, Fluke & Sheldon, PLLC